Union of Concerned Scientists

Before the Senate Energy and Technology Committee
Testimony on Senate Bill 437
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On behalf of the Union of Concerned Scientists

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Chairman Nofs and Members of the Senate Energy and Technology Committee
100 North Capitol Avenue
Lansing, MI 48933

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Thank you for providing the opportunity to testify on these important issues. My name is Sam Gomberg. I am the Lead Midwest Energy Analyst for The Union of Concerned Scientists - a science-based, non-partisan, nonprofit organization with over 13,000 supporters in Michigan, including hundreds of scientists, economists, engineers and public health experts.

The Integrated Resource Planning (IRP) process proposed in SB 437 could play an important role in clarifying the path forward to achieve a truly diverse, sustainable, affordable and lower-risk electricity system. However, the proposed IRP process is not an adequate substitute for the simplicity and certainty of Michigan's renewable energy and energy efficiency standards.

We recommend that the Committee develop an IRP process in the context of complementing rather than replacing Michigan's standards. Because the evidence is so clear that renewables and efficiency carry significant benefits to the people of Michigan, it is critical to preserve, and even strengthen these standards rather than replace them with a more complex IRP mechanism. Strengthening Michigan's renewable energy and energy efficiency standards is the best way to ensure that the state continues to develop these resources. The IRP process can then provide the most cost-effective, lowest-risk path forward to achieve these goals.

There are also several areas where SB 437 could be improved to further ensure robust consideration of consumer interests and a level playing field for non-traditional energy resources such as renewable energy, energy efficiency and transmission alternatives. For your convenience, we have divided our recommendations into three sections: those related to the initial statewide process, those related to the reporting requirements of utility IRPs, and those related to the standard on which a utility IRP should be approved.

The initial statewide process:

1) **Earlier stakeholder engagement:** Stakeholders should be given the opportunity to engage earlier to avoid delays or inaccuracies in the statewide process. Michigan is home to a robust network of engaged and technically qualified stakeholders that have much to contribute to this process. Limiting stakeholder engagement to commenting on the State's final recommendations would likely result in the need for additional analysis due to new information submitted or the uncovering of important inaccuracies to the draft statewide study. This is inefficient and could lead to significant delays. Stakeholder input should be solicited early in the process and at critical decision-making points so that the process can move forward with greater certainty and under more thorough scrutiny.

2) **Require the Commission to craft sensitivities to its scenarios:** The development and use of scenarios and sensitivities serve distinct purposes in energy system modeling exercises. Scenarios create a reasonable range of possible policies or decisions under which electricity demand must be met. Sensitivities explore how those scenarios perform under changes in uncertain variables, such as future demand or load shape, fuel costs or availability, and resource costs. By running chosen scenarios under a reasonable range of sensitivities, the Commission and utilities can better understand the risks inherent in uncertainty about the future and how the developed scenarios respond to those risks. This allows a more comprehensive planning process that balances costs and risks, ultimately leading to a plan that performs well under a wide range of possible futures.

3) **Provide authority to the Commission to select the modeling tools to be used in utility IRP processes:** Utility planning tools take a variety of forms - each with its own strengths and weaknesses. To maximize the robustness of utility planning, and to avoid competing model results or different utilities using different tools for their IRP analyses, a consistent modeling approach should be chosen by the Commission (in consultation with the appropriate stakeholders). In the alternative, a utility should be required to declare its intended modeling tools in advance, giving potential interveners the opportunity to retain appropriate expertise.

4) **Include demand-side resources in a utility's initial Request for Proposals (RFP):** To fully evaluate all options available to meet future energy demand, demand-side resources should be included in the utilities pre-IRP RFP process. As we are seeing across the country, including here in the Midwest, demand-side resources are contributing more and more to meeting energy demand in a low-cost,

low risk manner. This trend is expected to continue into the foreseeable future. Including demand-side resources in the initial RFP will allow utilities and the commission access to the most relevant data on the cost and availability of all resources to help meet Michigan's future energy needs. To streamline the RFP process, a minimum size placed on demand-side resources could be set to encourage aggregation of bids.

Utilities reporting requirements:

1) **Require reporting on renewable energy, energy efficiency and transmission alternatives to significant energy resource and infrastructure investments:** We support SB 437's requirement that utilities provide analysis of the availability and costs of alternative electric resources that could displace proposed generation facilities. However, consumers would be better protected from unnecessary or unreasonable costs by specifically placing the burden on utilities to show why renewable energy, energy efficiency, transmission, or a combination thereof is unable to fill a perceived need for generation or capacity rather than a proposed significant investment in a traditional generation resource. By including this language, the utility cannot simply provide a list of resources and their cost and availability, but must actually analyze alternatives to generation facilities and provide information as to why these resources cannot be used to supply any expected need for capacity or energy.

2) **Require reporting of the full cost of retirement and decommissioning costs of new generation resources:** Often, IRP processes are flawed in that they do not capture the full cost to consumers of the necessary retirement and decommissioning of generation resources. These costs can be significant, are ultimately born by consumers, and may change the balance between technologies in determining the least cost, lower-risk option.

3) **Require reporting on the full life-cycle environmental and public health benefits and costs of the various plans under consideration.** Different plans for meeting energy demand will have different impacts on Michigan's environment and the health of Michigan's communities. These costs and benefits should be reported to the Commission so that a true and full evaluation of the options can inform decisions about what investments are in the best interest of consumers.

4) **Broaden the utility reporting on energy efficiency efforts:** While we support SB 437's requirement that utilities report on their plan to eliminate energy waste, the bill should also require utilities to report on the overall level of cost-effective energy

efficiency available, by customer class, within their service territory and provide an assessment of the costs and benefits to consumers of pursuing all available cost-effective energy efficiency. "Cost-effective" should be defined to include consideration of all reasonably discernable costs to consumers of increased pollution that will result from the utility's proposed plan.

5) **Remove the allowance for multi-state utilities to submit uniform IRPs:** Utilities often operate in multiple states under different regulatory regimes and different reporting requirements. In order to ensure that the Commission is receiving the information it needs to make an informed decision in the best interest of Michigan's consumers, it is imperative that they receive Michigan-specific information. Utilities should be required to submit plans according to the conditions and requirements set by SB 437 and the Commission to ensure proper consideration of whether the proposed plan is reasonable and prudent to Michigan consumers.

Standards under which a utility IRP should be approved:

1) **Require the Commission to approve a utility plan only if it is the "most" reasonable and prudent plan:** We support the position of the Governor's administration that this should be the standard by which the Commission shall approve utility plans. Many plans put forth by utilities could be deemed "reasonable and prudent" while still leaving significant cost savings and risk-mitigation benefits on the table. A "reasonable and prudent" plan is not necessarily the least-cost plan or the lowest-risk plan, and therefore may not represent a plan that is in the best interests of consumers. Requiring the "most reasonable and prudent" plan that fully accounts for risk-mitigation (see Recommendation #2 below) provides stronger protections for consumers and holds utilities to a more appropriate standard.

2) **Place a greater emphasis on risk-mitigation:** SB 437, as currently proposed, directs utilities to submit an IRP that minimizes the net present value of forward capital and production costs. However, this mandate misses an equally critical element of the IRP process: to minimize the risk of increased cost, decreased reliability, or both under unforeseen circumstances. Proper planning requires the balancing of cost and risk, and there are several instances where the most prudent path forward is not necessarily the absolute least cost path. In many instances, it will be in the best interests of consumers to choose a path that may have slightly higher present value, but significantly lower risk of negative impacts from unforeseen changes in circumstances such as spikes in fuel prices, new or strengthened environmental regulations, or unforeseen outages.

The Commission's guidance on when a utility IRP shall be approved should also include a finding that the utility plan represents a responsible balance between cost and risk such that consumers are adequately protected from the risks and uncertainty inherent in planning for future conditions.

3) **Include energy needs in the Commission's decision of whether to approve a utility plan:** SB 437 currently instructs the Commission to approve a plan if it represents a "reasonable and prudent means of meeting the capacity needs relative to other resource options. . ." We recommend also including energy needs in this section. It is possible that a plan to solely meet capacity needs will not be the most prudent plan to meet both capacity and energy needs. Including the energy needs in the Commission's consideration helps guarantee that the approved plan is comprehensive in its assessment of consumer needs and how best to meet them.

With our recommendations incorporated, SB 437 has the potential to provide a strong foundation for building a successful IRP process. However, even with these recommendations, an IRP process will not ensure the environmental, public health, and diversity benefits that could be provided by strengthening Michigan's renewable energy and energy efficiency resources standards. We therefore urge the Committee to consider this IRP process proposal as a complement rather than a replacement for Michigan's renewable energy and energy efficiency standards.

Thank you for the opportunity to provide this testimony. We would be happy to answer any questions or provide more information as you work through these important issues.

Sincerely,

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